

# Introduction to the Pension Contribution Rate-Setting Process

October 17, 2003

## A. **Background:**

The Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board adopts the required member, employer and state contribution rates for LEOFF Plan 2. Contribution rates come in two forms; a "*supplemental rate*" to pay for the cost of additional benefits and a "*base rate*" to pay for the cost of the plan. These contribution rates are split among members of the plan, employers and the state on a 50-30-20 basis. The contribution rates are calculated as a percentage of employee salary. The Department of Retirement Systems (DRS) collects the required contributions on a monthly basis and transfers them to the LEOFF 2 Retirement Fund. The current contribution rate for LEOFF 2 is 10.10% which breaks down to:

- 5.05% Members
- 3.03% Employers
- 2.02% State

The Office of the State Actuary (OSA) was solely responsible for calculating supplemental rates prior to the creation of the LEOFF Plan 2 Retirement Board. The State Actuary was also responsible for calculating the base rate as part of a biennial actuarial valuation of LEOFF Plan 2 and other state retirement plans. The Pension Funding Council (PFC) formally adopted the LEOFF 2 rates and other pension contribution rates for use in the State's biennial budget after independent actuarial review. The PFC contracts for these actuarial services with the assistance of the PFC Workgroup.

## B. **Supplemental Contribution Rates:**

The LEOFF Plan 2 Retirement Board must adopt a supplemental contribution rate whenever there is a change in the retirement plan that results in additional costs. This additional cost becomes part of the base contribution rate the next time the base rate is adopted.

House Bill 1205 in 2003 allowed Fish and Wildlife Enforcement Officers with the State Department of Fish & Wildlife to transfer their retirement system membership from the Public Employees' Retirement System (PERS) Plan 2 or 3 to LEOFF Plan 2 on a prospective basis. The State Actuary's fiscal note for HB 1205 estimated a 0.04% supplemental rate would be necessary to pay for the cost of this plan change. This would result in an increase of 0.02% for members, 0.01% for employers and 0.01% for the State.

## C. **Base Contribution Rates:**

The LEOFF Plan 2 Retirement Board must adopt the base contribution rates for the 2005-07 biennium no later than September 30, 2004. The Pension Funding Council will be adopting contribution rates for the other state retirement plans at the same time.

## **D. Appendix – LEOFF 2 rate-setting statutes**

### **RCW 41.26.720**

(1) The Board of trustees have the following powers and duties and shall:

(a) Adopt actuarial tables, assumptions, and cost methodologies in consultation with an enrolled actuary retained by the board. The state actuary shall provide assistance when the board requests. The actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial cost method based on a level percentage of payroll, as that term is employed by the American academy of actuaries. In determining the reasonableness of actuarial valuations, assumptions and cost methodologies, the actuary retained by the board shall provide a copy of all such calculations to the state actuary. If the two actuaries concur on the calculations, contributions shall be made as set forth in the report of the board's actuary. If the two actuaries cannot agree, they shall appoint a third, independent, enrolled actuary who shall review the calculations of the actuary retained by the board and the state actuary. Thereafter, contributions shall be based on the methodology most closely following that of the third actuary.

### **RCW 41.45.0604**

(1) Not later than September 30, 2004, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW 41.26.720(1)(a).

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to legislative modification.

### **RCW 41.45.070**

(2) In addition to the basic member, employer, and state contribution rate established in RCW 41.45.0604 for the law enforcement officers' and firefighters' retirement system plan 2, the department shall also establish supplemental rates to pay for the cost of additional benefits, if any, granted to members of the law enforcement officers' and firefighters' retirement system plan 2. Except as provided in (6) of this section, these supplemental rates shall be calculated by the actuary retained by the law enforcement officers' and firefighters' board and the state actuary through the process provided in RCW 41.26.720(1)(a) and the state treasurer shall transfer the additional required contributions regardless of language to the contrary contained in the statute which authorizes the additional benefits.

### **RCW 44.44.040**

The office of the state actuary shall have the following powers and duties:

(7) Provide actuarial assistance to the law enforcement officers' and firefighters' plan 2 retirement board as provided in chapter 2, laws of 2003. Reimbursement for those services shall be made to the state actuary under RCW 39.34.130 and 41.26.720(5).